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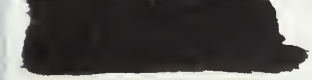

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Transitions in Marketing Strategy: A Look at the Process

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TRANSITIONS IN MARKETING STRATEGY: A LOOK AT THE PROCESS

The concept of theories-in-use (knowledge structures we hold and update based on experience) is used to explain how marketing organizations transition between strategic styles in response to environmental shifts. The process is illustrated in the case history of a bank trust department's responses to the deregulation of financial markets in the early 1980's. The paper suggests that to transition between strategic types does not involve a controlled strategic adaptation process but requires instead iterative changes to theories-in-use through enactment. It uses institutional and resource dependence theories as frameworks that illustrate the trust department's dominant theories-in-use before and after deregulation.

The paper begins with a description of a bank trust department prior to the financial industry deregulation and a discussion of the dominant theory-in-use and its strategic marketing consequences. It then describes the deregulation events and the changes they forced on the trust department, as well as the theory-in-use most appropriate to the new environment. The paper then summarizes two competing explanations for how firms transition between strategic styles: classical strategic adaptation theory and sense making through enactment. It shows enactment is a better explanation of the process the trust department actually followed than classical adaptation theory because it better reflects what we know about human response to new environments. The paper concludes with some implications for strategic marketing theory and management.

Introduction

Marketing strategy, recognized as an important field of inquiry a decade ago (Anderson 1982) is today more important than ever before. The factors that made it important at that time (e.g., global competition, deregulation, the speed of technological advances, and pressures for productivity and quality) have become even more prevalent and accentuated the need for strategic marketing. In the last decade, strategic marketing has matured as a field of study and much has been learned about operational, financial, and managerial factors critical to successful strategic marketing. Much has also been learned about strategic management styles and the tools and perspectives marketing managers need to navigate volatile environments, although as always, there is much that remains to be understood. Of particular interest to this discussion are the mental processes involved in strategic responses to environmental changes. This paper takes a cognitive perspective on strategic marketing managers and uses an ethnographic approach to illustrate how a business unit committed to strategic marketing actually changes its strategic style to fit a new environment.

The work on strategic marketing and strategic market planning is extensive. It has addressed the need for categorization schemes or typologies (Segev 1989) on the basis of industry factors (Porter 1985), performance characteristics (Buzzell and Gale 1987), and organizational orientation to the environment (Miles and Snow 1978). It has also sought to meet the needs for management tools (e.g., Sheth and Frazier 1983, Ziethaml and Ziethaml 1984) and organizational change (e.g., McDaniel and Kolari 1987) to achieve better strategy. Its primary objective has been to identify the factors that are most important to a business' position in its industry or strategic segment (e.g., barriers to entry or exit, market attractiveness, technology) and to its ability to respond to environmental change (e.g.,, synergy, beliefs, culture). In both areas the progress has been considerable and resulted in a formal area of managerial training (e.g., Kerin, Mahajan, and Varadarajan 1990).

Attention has also been focused on how marketing managers go about developing and implementing marketing strategy. The choice of strategic objectives and actions has been shown to be affected by a manager's beliefs about the market's attractiveness, the company's strengths, and its ability to understand and shape the environment (Burke 1984). Strategic initiatives have also been shown to be influenced by the interaction patterns of key individuals and strategic groups (Hutt, Reingen, and Ronchetto 1988). A behavioral orientation to understanding marketing strategic thinking and practice was advocated by pioneers in the area (Day and Wensley 1983) and remains an important perspective today (Gioia and Chittipeddi 1991). Of great interest in today's turbulent environments is the need to understand how marketing managers and their organizations transition from one strategic orientation to another in order to better fit with the changing environment.

The need for shifting strategic orientation in response to environmental changes has been discussed in marketing (McDaniel and Kolari 1987) and strategic management (Zajac and Shortell 1989). Both sets of authors used the Miles and Snow (1978) typology to better understand strategic marketing by business and changing environments: McDaniel and Kolari looked at companies in the financial services industry while Zajac and Shortell looked at health care providers.

Miles and Snow suggest that firms fall into four categories based on their organizational/managerial orientation to the environment: defenders, prospectors, analyzers, and reactors. *Defenders* see the environment as threatening but controllable. They take a *defensive* position and set narrow and somewhat rigid parameters for their product-market domains. *Prospectors* see the environment as promising and only partially controllable. They take an opportunistic position, define their market domain loosely, and redefine their strategies in response to emerging opportunities. *Analyzers* fall between defenders and prospectors, seeing the environment as both dangerous and promising. They often define some markets narrowly and defend them while

concurrently devoting resources to exploring partially defined opportunities outside their main competencies. In some ways they adhere most to the growth/share matrix axioms of harvesting cash cows and investing in question marks. *Reactors* lack strategy and simply react to environmental and competitive forces. Their perspective of the environment is confused and inconsistent, as are their strategic responses. Whereas defender, analyzer, and prospector styles are all seen as viable by Miles and Snow, the reactor style is considered detrimental and expected to result in poor performance.

Both McDaniel and Kolari and Zajac and Shortell examined the strategic marketing profiles of businesses for defenders, prospectors, and analyzers and found that firms seeing themselves as prospectors and analyzers were similar in the importance they gave to new product development, pricing strategy, and promotional activities, and in this they were significantly different from the defenders. They concluded prospectors and analyzers were better positioned for the deregulated environment in their respective industries and business units in the financial services and health care industries to transform themselves into prospectors and analyzers. Other research (e.g., Hambrick 1983, Karnani 1984), some using Miles and Snow and some using the Porter typology, has also shown that firms differ in their strategic marketing practices and recommended firms should adopt strategic styles better suited to the environment they face. Although it has been shown there is some relationship between the Porter and Miles and Snow typologies (Segev 1989) and they have been combined into even more detailed classification schemes (Boyd and Walker 1990), these typologies differ in their fundamental focus (industry factors v. organizational orientation) and showing that organizations transition between strategic styles using both typologies is important. It shows the evidence for strategic transitions is not a function of the perspective we take on the business unit or what factors we focus on.

Having recognized that strategic styles vary in how suitable they are to different environments, we can extend our knowledge by considering how a business unit and its management actually change strategic style; using our previous examples, how financial and health care service providers transition from defenders to analyzers and prospectors. Implied in many of the studies illustrating strategic transition is the idea that once the differences between current strategic style and the environment are highlighted, the need for change is clear and the way to implement self-evident. Practice does not always support this view, however, since even in the face of crisis, strategic change is difficult and often follows a circuitous and painful path (Mintzberg and McHugh 1985). Part of the reason for difficult transitions is that business units rely on managers to interpret and respond to the environment, and managers don't always hold the same ideas or theories about how things work. Managers and organizations learn slowly and through experience. They learn as current modes of cognition are disconfirmed and new ones take their place (Gioia and Chitippeddi 1991). Modes of cognition or knowledge structures have been the focus of considerable research in strategic management (Walsh 1989) under names like dominant logic (Prahalad and Bettis 1986), scripts (Gioia and Poole 1984, Gioia 1986), and theories-in-use (Argyris and Schon 1974; Zaltman, LeMasters, and Heffring 1982). This discussion will focus on theories-in-use as the term most adequate to the processes being discussed.

Theories-in-use are implicit theories or frameworks that identify salient variables, anticipate their relationships, and specify causal ordering. They have as an underlying view of the world the positivist scientific model which characterizes much of current marketing thinking and practice (Hirschman 1986). The theories-in-use of marketing managers help them make sense of their situations and recognize *what* needs to change, *how* to change, and in what *direction* change should lead. Theories-in-use also act as filters of environmental information, however, by focusing attention on

some factors and causing others to be ignored. A theory-in-use incompatible with the environment, therefore, can result in marketing strategy that is also incompatible and the transition between strategic styles advocated by earlier research requires a different orientation to the environment and by implication, changes to existing theories-in-use. Understanding how theories-in-use change is therefore critical to our understanding of how businesses transition between strategic styles.

Changes to theories-in-use and the transition between strategic styles in the financial services industry is illustrated in the story of a Midwest bank's trust department. The story takes place between 1981 and 1989 and follows the department's transition from defender to analyzer. Data for this account was collected from correspondence, personal interviews, and participation in the planning and implementation of several strategic marketing initiatives. The study took seven years to complete, two years (1982-1984) in action research and analysis of the events leading up to the first attempts to transition in 1981, and five years (1985-1989) of periodic follow-up.

The story has no heroes and few instances of proactive strategic marketing management (Ziethaml and Ziethaml 1984). It abounds, however, in examples of how theories-in-use were disconfirmed and adjusted, and their effect on marketing strategy. The theories-in-use of the trust department management are often representative of more formal theories of organization, although they are never as parsimonious or conclusive. The labels of these formal theories help us explain the department's progress, however, and will be used throughout the discussion. The story further illustrates that transitions between strategic types is possible, but it is not a sequential and carefully orchestrated process. The story takes place between 1981 and 1989, as the trust department and the financial services industry as a whole tried to adjust to a deregulated environment. The major environmental changes occurred between 1980 and 1982, although strategic marketing responses did not start being implemented until

1983 and some issues remained unresolved in 1989. The environmental changes and strategic implications of these events are listed in Table 1. The trust departments actual responses to the changes are discussed below.

Insert Table 1 here

The Regulated Environment

From the depression until 1980 banks were regulated by federal and state law in terms of interest rates they charged or paid, savings and checking instruments they offered, and the types of investments they were allowed to make (consumers loans, commercial loans, etc.). They were also restricted in their geographic markets. Our bank, for example, could not have branches more than 25 miles from its home office. The tight regulations limited competition and allowed community banks to be profitable while limiting risk to individual depositors. In most small and medium sized communities, commercial banks focused on meeting the savings and checking needs of customers and small businesses. The needs of large business were met by larger banks in major metropolitan areas (e.g., New York, San Francisco, etc.) The scope of services, however, was identical to those of small banks. Small and large banks benefited greatly from high deposit balances of wealthy customers, and established trust departments to protect those deposits.

Trust departments prior to 1980 were primarily focused on serving the bank's wealthy clientele. Although there was some variability between trust departments, virtually all offered estate and financial planning, estate management, and financial asset administration, services considered important by holders of accumulated wealth. At our bank, the trust department's primary emphasis was in two areas: legal expertise in estate and tax planning and professional administration of personal trusts and employee benefit plans. Investment management was a secondary priority, and trust

investments were characteristically conservative. Portfolios were managed to protect capital, yield modest returns, and assume minimal risk. Although this particular trust department was sometimes praised locally for its legal expertise and had several attorneys and CPA's on staff, it was only marginally different from the trust departments of many other banks.

The financial accounting treatment of trust operations is another indicator of the department's role in the bank's overall strategy. Quite often trust departments were considered an expense area of the bank and folded into general overhead calculations. Our trust department was no exception. The fees charged for trust services (on average .5% of total assets under management) did not cover expenses. Trust operations were subsidized by the commercial operations (loans, deposits, etc.) that benefited from large margins on the transactions of wealthy trust clients. Margins are defined as the spread between the cost of deposits (interest paid) and revenue from loans of the funds (interest earned) an is a measure of gross profit in the banking industry.

In the regulated environment, there was little to differentiate the services of trust departments, and customers chose a trust department based primarily on image criteria. Bank trust departments consequently had to appear safe and legitimate to three constituencies: the bank regulatory agencies that periodically audited trust operations, trade associations, and the financial and legal advisors of the wealthy (attorneys, CPA's, and insurance underwriters). Since legitimacy was important and direct competitive forces were insignificant (trust departments from other geographic areas were legally restricted in what they could offer), trust department managers relied on external sources for direction in most marketing decisions - a good illustration of institutional theory (DiMaggio and Powell 1983).

The Institutional Theory-in-Use and Marketing Strategy Implications

Institutional theory suggests organizations do not plan or try to affect their environments, but merely respond to external influence, which the theory suggests come from three sources: coercive, mimetic, and professional. *Coercive* influence is exercised by entities that have legal authority, and for our trust department they were federal and state regulatory agencies. *Mimetic* influence is exercised by organizations in the same industry that are held as examples to be emulated, and took the form of premier banks and trust companies frequently upheld as role models by trade associations. Our trust department used the U.S. Trust Co. as a role model. *Professional* influence comes from the strong identification of employees with professional groups to which they belong and the behavioral expectations of these professional groups for their members. The trust department had professional influences from its legal and financial experts (attorneys and CPA's), who wanted to preserve credibility with their professional colleagues and often placed professional norms ahead of business concerns. Reliance on external influence was so pervasive that it had a role in the departmental mission. Trust department managers saw compliance with external influences as a primary objective and often used their compliance record in promotional materials aimed at prospective clients. In other areas of the marketing mix (product and pricing) trust management also relied on external influences for direction. Many of the department's services were dictated by regulatory agencies, as were the department's responsibilities to clients. The services offered were also influenced by a group of local attorneys, CPA's, and insurance brokers active in a local professional organization called the Estate Planning Council. Trust personnel were also members of the Council and the department subsidized Council functions (e.g., dinners, receptions, etc.) on a regular basis. In return, the department used Council meetings to informally elicit suggestions and evaluations of their services. Council meetings were also used informally by coalitions of professionals to request

custom services for their own clients, or as components of their own more comprehensive packages of services (trust services were *bundled* with other legal and financial services).

Pricing was also strongly influenced by the professional community. Attorneys and CPA's in particular often asked for reduced fees for price sensitive clients, and some also asked for reduced fees to lower the overall cost of bundled services while retaining their own customary fees. The department complied because of the importance of the professional community's approval.

In terms of marketing strategy, our trust department would be best characterized as a differentiated defender. Please recall defenders set narrow parameters for their product-market domains, which our trust department did in response to regulatory and professional constraints. A differentiated defender (as compared to low-cost defenders) tries to maintain a distinct position in a narrow product market for which it can charge a small premium. Our trust department differentiated itself by the sophistication of its estate planning and administrative services and in the breadth of administrative details trust officers were equipped to handle. By trust industry standards, the department had almost unmatched expertise in all areas of tax law. It had also assembled a cadre of experienced trust administrators that were able to respond to the whims of the wealthy as well as to their legitimate needs. Consequently, the department was singularly equipped to handle the more difficult estates and clients, and to charge slightly more for their services.

It retained an institutional theory-in-use, however, because its major sources of influence continued to be coercive, mimetic, and professional. As mentioned earlier, the department saw its mission in terms of maintaining external legitimacy with regulators and the professional community, and by matching the practices and performance of its nationally renowned role model.

The Deregulated Environment

During the 1970's there was considerable discussion in government circles on the need for deregulation of the banking industry, largely triggered by the financial and economic dislocations of the late 60's and early 70's. Congressional and administrative groups worked on alternative plans which led to the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Gairn-St. Germain Act of 1982. Together with complementary changes to state regulations, these two Acts produced several significant environmental changes for trust departments and banks in general:

1. Interest rate and maturity constraints were eliminated for most bank deposit instruments.
2. Non-bank institutions were allowed to offer deposit instruments that were functionally equivalent to savings and checking accounts.
3. Non-bank institutions were allowed to offer credit cards and other forms of consumer loans.
4. Banks were allowed to offer financial services other than demand deposits and loans (e.g., discount brokerage services, financial management) on a limited basis.

Concurrent with financial services deregulation and partially related to them, other changes were implemented by state government and professional associations that also affected the trust department. Real growth of the U.S. economy declined during the 1970's, and resource shortages became a reality to many people. Economic decline had a particularly significant effect on professionals involved with the financial industry (e.g., attorneys, CPA's etc.) found they were unable to achieve the same level of success as their predecessors due to increased competition and reduced accumulated wealth. Their response was lobbying for greater competitive freedom that motivated additional changes:

1. State regulatory agencies allowed insurance companies to combine financial planning and various investment services with their more traditional products and sell them as bundled services.
2. State regulatory agencies allowed attorneys and CPA's more latitude in the giving of financial advice and the selling of financial instruments.
3. The professional standards against competition between attorneys and CPA's were amended by their respective associations, allowing the commercial advertising and promotion of legal and financial services to become common place.

All of these changes put great pressure on trust departments. Federal deregulation allowed savings and loan associations, credit unions, and stock brokerage firms to offer almost the same array of services as banks in addition to their own traditional services, which in some instances banks could not match and put banks and trust departments at a competitive disadvantage. Deregulation forced consumers having to assimilate an expanded array of investment options and accept increased risk in the markets. Many clients were overwhelmed by the rate of change and anxiously demanded explanations, new services, and greater investment sophistication which trust administrators were not able to provide. Consumers had more financial choices and could leave more easily when dissatisfied. Many customers left in search of higher returns and better services, and the loss of revenue affected by both trust and commercial areas of the bank. Interest rate volatility also affected the trust department by making client relationships less stable and predictable. Interest rate fluctuations made it more difficult to invest clients' funds for the long term and highlighted the department's historical neglect of the financial management area.

In addition, looser standards for insurance underwriters, attorneys, and CPA's meant they could compete more aggressively and often match the services of trust departments. This, in effect, turned prior allies into competitors. Trust departments

that in the past worked in conjunction with these professionals found themselves left out of new client relationships.

To complicate matters, the entry of new competitors and the changes to established professional relationships all took place during the century's worst interest rate crisis. When interest rates were fully deregulated in 1982, the prime rate went to 20% and competitive interest rates on savings investments (what banks paid on certificates of deposit) went to the 16-17% range. High interest rates put great pressure on profit margins and endangered already established client relationships. Some long-time trust clients were rejected on renegotiated loans because they could not meet the tighter standards imposed by banks to protect their asset positions. Other clients were offended by the increased reporting requirements and high interest rates the banks sought to enforce. Both sets of action endangered trust relationships because clients that could not have their commercial business with the bank would often take their trust business elsewhere. Reduced bank profits (due to narrower margins) also affected the trust department by curtailing the subsidy stream from commercial operations.

The changes described above were not trivial. For the fist time in fifty years the trust department faced aggressive and diverse competition, and its areas of competitive advantage (legal expertise and administrative breadth) were nullified by competitive moves and the department's weak financial management area. Also for the first time, there was an oversupply of financial services providers relative to the demand in the local market. Customers were no longer restricted by law to do business with banks or trust departments. In fact, businesses and individual customers could literally have all their financial needs met without ever setting foot in a bank.

Things were also different in a positive way in terms of the department's ability to respond to the market. Deregulation eliminated many of the restrictions on what trust department's could offer, and the change in the scope of services offered by the professional community eliminated the restrictions those groups had imposed on the

department as well. The trust department was now legally and professionally able to seek clients relationships more aggressively and in a larger geographic area, and to serve the clients without the intervention of other professionals. These changes created a substantially different environment than the one described in the last section, reduced the importance of legitimacy, and increased the importance of competition. The new environment was better characterized by resource dependence theory (Pfeffer and Salancik 1978).

The Resource Dependence Theory-in-Use and Its Implications for Marketing Theory

Resource Dependence theory is based on two axioms: interorganizational competition for limited resources, and the desire of organizations to preserve their autonomy. As such, the theory is most applicable to environments where there is competition between organizations for resources (demand exceeds supply) and where organizations have freedom to pursue alternative strategies to achieve their objectives.

The deregulated environment of the early 80's moved the trust department into a resource dependence scenario. The elimination of regulatory boundaries and resulting influx of new competitors made deposit and loan opportunities (resources) more susceptible to competition. Competition was also fierce for the trust mainstay services of financial management and asset administration as stock brokers, CPA's, attorneys, and insurance underwriters were able to combine similar financial services with their traditional portfolio. The supply of services and providers exceeded consumer demand. Deregulation also gave trust departments more autonomy in terms of the products and services they could offer and how they responded to competitive forces. For our trust department, they had more opportunities in the services they could offer, in the pricing of those services, and in their distribution, since the 25 mile radius limit had been eliminated and trust departments could now market their services throughout the whole state.

These environmental changes demanded a shift in strategic style, since they made the differentiated defender style based on an institutional theory-in-use no longer viable. The old environment was predictable and relatively stable, even if not fully controllable, and these are characteristics that are more compatible with defender strategies (Hambrick 1983). The new environment, in contrast, was neither stable nor predictable. The same uncertainty about what were suitable strategies plagued existing and potential competitors, and as a result they were also involved in rapid and sometimes discontinuous change. In addition, the economic uncertainty of the times caused considerable uproar among policy makers and produced a quick succession of tax and interest rate policy changes and reversals almost impossible to predict. The new environment was more controllable through marketing strategies (Ziethaml and Ziethaml 1984) but was also more complex.

Strategic styles more suitable for the new environment are those of analyzer or prospector (Hambrick 1983; McDaniel and Kolari 1987), but this requires a resource dependence theory-in-use. In contrast with the external orientation of institutional theory, resource dependence suggests that business units put more emphasis on the product/market strategy to compete only in domains or market segments in which they have a sustainable advantage. It also suggests advertising, public relations, and personal selling should take a more prominent role in differentiating the business to reduce competition. Finally it suggests the organization establish environmental scanning and analysis functions to direct its efforts, and that this be done by using internal resources or by mergers, coalitions, and/or contractual relationships that allow the business to retain control of the functions. Please note that underlying all these suggestions is the idea that "the business unit can and should control its environment." The objective of the firm should be to understand and respond to the environment so as to compete effectively for scarce resources and preserve the business' autonomy.

The Transition Process

It seems there should be little disagreement that our trust department needed to change its strategic style. As mentioned earlier, however, recognizing the need for change does not necessarily make obvious *what* needs to change or what *direction* the change should take. For the trust department, as for other businesses, the change was difficult. The institutional theory-in-use prevalent among trust management persisted long after deregulation was in effect, and resulted in marketing strategies that were ill-defined and inadequate. The theory-in-use eventually changed to one more representative of a resource dependence perspective, but the process by which they changed did not resemble the expectations of classical strategic adaptation (Shortell 1988).

Strategic adaptation theory suggests that organizations facing changing environments should *evaluate* the environment and themselves, *plan* strategies to respond to the changes, and devote all necessary resources to the *implementation* of these strategies. Some strategic actions suggested by this approach are:

1. Identify critical resources (e.g., clients, deposits, financial management talent) and evaluating them to assess areas of dependence and dominance.
2. Identify important competitors (e.g., stock brokers, attorneys, CPA's, other trust departments, etc.).
3. Change organizational procedures to reduce dependencies and gain more direct control of resources (e.g., strategic alliances, develop new services, consolidate services to improve efficiency).
4. Restructure the organization to shift power to areas critical for survival (e.g., reduce emphasis on legal expertise, improve financial management services).

Although by the end of our story in 1989 many of these suggestions had been implemented, the process was not one of evaluation, planning, and implementation. It

wasn't even in the spirit of more effective management through analysis suggested by Wind and Robertson (1983). Instead, it was a slow process of redefining departmental assumptions about the environment (theories-in-use). The department persisted in looking externally for direction and legitimacy for several years after deregulation was implemented, and only slowly came to recognize its increased autonomy and the increased competition for resources.

At first, the department looked to the government, and there was even hope between 1980 and 1982 that regulation would be reinstated and "life would return to normal." As it became clear government would not reimpose external control, trust management turned to the professional community (attorneys and CPA's) for direction by instituting collaborative task groups. Although the idea of collaboration fits with resource dependence theory (establishing strategic coalitions), the department's objectives were not to limit competition or control the environment. They sought through these groups to replace the regulatory structure with a professional advisory one that would intervene and give direction to departmental strategy. These cooperative groups were supposed to give guidance in terms of product/market and pricing strategy, and there were even some attempts at getting their input on promotional efforts also. This approach also failed, however, since many of these professionals had come to see trust departments as competitors. Some were unwilling to enter cooperative relationships, while others took advantage of the trust department and played into the role in order to gain access to established trust clients.

At the same time the trust department looked to the professional community, they also looked to their past role models (highly regarded trust operations) and sought the advice of "experts." Virtually overnight, the financial services consulting profession emerged as trust officers from highly regarded departments began selling consulting services. Ironically, some of these "experts" had been demoted by their previous employers (and motivated to leave) because their recommended strategies did

not work. The problems of highly regarded trust departments were seldom made public, however, because these departments also feared the loss of legitimacy. A number of consultants were hired and dismissed in quick succession, quite often because "they just don't understand our situation."

During the "consultant" phase the department started making small changes to its product and pricing policies, although they did not follow a consistent strategy. Changes were often implemented and rescinded very quickly (some services and pricing policies only had a 2-3 week life). There was also little coordination and communication with other areas of the bank, and for a short time the rest of the organization refused to cooperate with trust department initiatives. By the beginning of 1983 the institutional theory-in-use had been disconfirmed in the mind of many members of the trust department (external legitimacy was no longer relevant and external control no longer available), but the scarcity of resources and increased autonomy had not become firmly established. Service and pricing changes had implied enhanced autonomy, but the fear of "external punishment" for making the changes persisted. It took more significant changes to drive home that the market had changed.

As mentioned earlier, deregulation made it possible for clients to leave the department for better quality services from non-bank providers, and the interest rate crisis had endangered other relationships and the subsidy of the trust department by commercial operations. The end result was the department's first loss of assets under management (a measure of trust business activity) in over 30 years, and an accounting adjustment that repositioned the trust department as a money losing business unit.

The net effect was to publicly expose the department as financial responsible and deficient in its protection of its market, and indirectly accentuate the department now had a wider array of competitors and more freedom to respond. In a matter of months the resource dependence theory-in-use became the dominant one in the department, and the marketing strategy of the business started being shaped by it. The

first step was a more organized market research program than what had been used in the past. Existing and potential customers were surveyed on service and pricing policies for the first time. Cooperative arrangements were formed with other areas of the bank, and cross-training on trust and commercial products was established. Personal selling became more important, and even the recruiting and reward practices (commission compensation) were changed to attract and retain qualified personnel. Advertising strategy was also affected but trust research findings and resulted in a comprehensive advertising campaign for all bank products.

By 1985 the department had transitioned from a differentiated defender to an analyzer strategic style focused on protecting its established customer base and competitive advantage, and looking for new opportunities in areas like income tax services and small account financial management. They also established dominant cooperative agreements with several trust departments throughout the state. In 1986 the bank was acquired by a bank holding company, but in a reversal of past practices by the acquiring company, the trust department as allowed to remain autonomous, and eventually formed dominant coalitions with other trust departments within the same holding company.

It must be noted, however, the transition to the resource dependence theory-in-use was not smooth or uniform. In practice, the rate of change gained momentum when enough managers had made the transition to upset the balance of power in the department. A number of other managers continued to hold the institutional theory-in-use and as late as 1989 were resisting the changes to the department's marketing strategy. They saw it as illegal and a mistake in spite of its successful track record and looked outside the organization for direction and legitimacy.

Changing Theories-in-Use

The persistence of the old theories-in-use in the new environment should not surprise us given how difficult it is to change our knowledge structures. There are multiple conceptual treatments of knowledge structures (e.g., scripts (Abelson 1981), distilled ideologies (Salancik & Porac 1986), ideologies (Beyer 1981)), but most agree that people apply them to make sense of their environments and to inform their behavior. They also agree these knowledge structures are based on past experience, are relatively stable, and change slowly as new experiences update them. Theories-in-use are a type of experienced knowledge structures and as difficult to change as other structures. This explains, at least partially, the slow rate at which trust department management changed its theories-in-use. The connection between knowledge structures and theories-in-use also suggests that understanding how knowledge structures are formed and updated will help us better grasp (and possibly improve) how businesses transition between strategic styles.

A parsimonious and intuitively appealing treatment of knowledge structures applied to organziations is found in the idea of enactment (Weick 1979).

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insert figure 1 here

Figure 1 illustrates the process of sense making through enactment. The theory suggests the environment is ambiguous and we make sense of it by *enacting* (acting on) an interpretation, evaluating the outcome of our enactment using *selected* aspects or variables, and *retaining* the outcome for future enactment and selection opportunities. Retentions are evoked when new situations are encountered, and they inform both the behavior of the individual (enactment) and the perception of the environment's reaction to that behavior (selection). Retained knowledge structures determine what variables are considered important in both the environment and the individual or organizational

response. In other words, we act and evaluate the outcome based on what we expected from our environment (e.g., Nisbett and Ross 1980, Taylor 1989). Weick treats retentions as knowledge structures not much different from theories-in-use.

In Figure 1, enactment and environment are linked in what is called a deviation amplifying loop (environmental change produces enactment which in turn results in supporting environmental change). Enactment is also connected to selection, indicating that the volume and direction of enactment has a direct bearing on selection activity. Likewise, selection has a direct effect on retention. Of particular interest to us is the effect of retention on both selection and enactment, which in Figure 1 is shown as being either *amplifying* (+) or *reducing* (-). An amplifying effect (+) indicates the person decides to trust past experience. A reducing effect (-) means past experience is ignored. In stable environments, deviation amplifying loops (+) are not a problem, since they steer behavior in a consistent direction in spite of small variations in the environment, and this steady behavior preserves a sense of progress. In unstable environments, however, deviation amplifying loops are problematic if the decision maker's actions are incompatible with environmental conditions. Ideally, we should expect that in changing environments individuals will choose to ignore past experience and introduce deviation reducing behavior into the loop. Weick correctly argues, however, such changes are not easy to make because people are strongly predisposed to trust past experience and only slowly are they convinced to discard old retentions in favor of new ones. The process by which retentions are changed seems to be a slow deconstruction of retentions into simpler elements that are altered based on experience and then reconstituted into new retentions. Changing the sign of the feedback loop going from retention to both enactment and selection is consequently gradual and possibly not all done in conscious processing.

The relevance of sense making through enactment to changing theories-in-use is relatively straightforward. The failure to make what appear to be sensible adjustments

to marketing strategy and the persistence of old habits is caused by the slow process by which retentions are changed in the individual (in this case trust department management). They could not move any faster because they were unable to see the changed environment had made new strategic factors important (their selection was biased by retention) while their behavior continued to be determined by the old important factors (enactment was also biased by retention). They certainly could not see what actions and perspectives would take them from a defender to an analyzer strategic style. If the process of deconstruction and reconstruction of retentions hold for theories-in-use that inform strategic management, it seems reasonable we should see several tell-tale behaviors by marketing managers:

1. Management will believe they understand the situation after minimal scrutiny and will repeatedly underestimate the amount of change required. Strategies will be based on what they can perceive and understand of the environment (which is restricted by retentions), and they will often propose solutions that do not go far enough. The strategic adaptation model, in contrast, suggests initial analysis that will disconfirm all existing theories-in-use and lead to a more accurate assessment of changes required.
2. Behavioral changes will lag environmental changes because it takes time for management to enact and select factors applicable to the new environment. In strategic adaptation managers will learn quickly to anticipate environmental change and lag will be minimal or non-existent.
3. Strategies will tend to be of limited scope and will be implemented and discarded in quick succession because as elements of retentions are disconfirmed strategic moves will become inadequate. This is an iterative process similar to the "experimental adaptation" observed by Wind and Robertson (1983) but not supported by the evaluation, planning, and implementation model.

4. Language (words and their meanings) that in the past was commonly accepted will become a source of confusion as individual manager retentions change at different rates and in different directions. This is a time when commonly accepted meanings (organizational memory) are discredited but their substitutes have not been formulated. The strategic adaptation model suggests any disagreements over meaning are resolved in the evaluation stage.

Many of these expected behaviors were evident in the transition of the trust department from defender to analyzer as described above. For example:

1. Solutions that did not go far enough and management's false sense of understanding are evident in the department's multiple initiatives. First they attempted to reinstate regulation and drive competitors out of the market and to form cooperative alliances with professional groups that were now competitors, and then hired and fired a number of consultants in quick succession. Through these initiatives the department's managers were enacting and selecting on retentions no longer relevant to the environment and that were being disconfirmed and updated by their experiences, but the process was slow.
2. The lag between environmental change and organizational response is evident in the timing of change. It took over a year after deregulation was effective (1980-1981) before the first changes were made to product and pricing practices, although they knew about the regulatory changes two years before they became official. (Preliminary information on changes was available in 1978). Knowing about the changes was not enough because they had not experienced the new environment, and it took repeated experiences for old retentions to start changing.

3. The iterative nature of strategy development is evident in the department's product and pricing strategy. New product ideas in response to deregulation did not start being considered until 18 months after deregulation, and then they were often introduced and eliminated in quick succession. The department was not really learning if new product offerings were market worthy because they seldom kept products long enough to test market response adequately. What they were doing was changing their retentions about competition and autonomy.
4. Confusion caused by language losing its common meaning is illustrated by a part of the story not mentioned until now - the struggle over the role of trust administrators. As mentioned before, trust administrators had served as estate planners and managers in the regulated environment, and were required to have considerable knowledge of tax law, with investment strategies having secondary importance. Deregulation made old roles obsolete, but what the correct new roles should be took a long time to be established. Some managers wanted to turn trust administrators into modern financial counselors, while others wanted to position them as providers of highly personalized administrative services (personal secretaries). This led to considerable confusion over adequate levels of training for administrators. From 1983 to 1985, funds were spent on training which was later made obsolete by the on-going redefining of the roles. As late as 1989 this was a continuing debate, although the personal administrative role was the dominant ideology.

By the 1985-86 there had been a sufficient number of strategic iterations that the retentions of the majority of trust department managers had been updated to more closely match a resource dependence theory-in-use, and as described earlier, marketing strategies had come to resemble those of an analyzer strategic style. Our trust department was lucky in how quickly it adapted, and that it was somewhat shielded

from competitive forces by the overall negative image of its geographic market. (Unemployment and economic hardship stories about this market had been nationally circulated and resulted in major financial service providers ignoring it.) It had enough time to learn and adjust its strategic style while remaining financially solvent. Many other trust departments in the state were not so fortunate and went out of business during the same period, either because they never were able to change their theories-in-use, or because they ran out of time. Departments adopting a low-cost defender style were particularly susceptible since deregulation allowed competitors with more efficient systems to enter the market and nullify the department's competitive advantage virtually overnight. The legal expertise and administrative breadth advantages were harder to duplicate by new comers.

The transitions for the trust department, however, might not be over, as the continuing changes in the financial services industry put more pressure on the banking and trust industry as a whole. The improvements in transaction efficiencies in financial markets caused by telecommunications and computer technology breakthroughs (Behm 1992) are reducing the need for bank and trust intermediaries unless they can facilitate transactions more efficiently than other options. Focusing on efficiency of transactions suggests that elements of Transactions Cost Theory (Williamson 1981) might have to be incorporated into current theories-in-use to produce marketing strategies compatible with the financial services environment into the 21st century, and it will be those organziations that transition most quickly that will survive.

Discussion

Although we cannot claim our case study is characteristic of how all business units update retentions, we have learned some valuable lessons from this analysis. First we find that although the distinction between individual managers and the business is useful in academic treatment of strategic marketing issues, we cannot lose sight of their

interdependency. Organizations rely on individuals to make sense of the environment, develop strategies, and make decisions, and are consequently affected by the psychological constraints of people (Daft and Weick 1984). It is true that businesses seem to develop memories of their own, since they preserve theories-in-use beyond the tenure of any one individual, but those theories-in-use still reside in the minds of members and can only change as the retentions of members change.

Second we observe the process of change is not fully understood, nor does it seem to be fully under conscious control. Weick (1979) defined retentions in somewhat nebulous terms - as a combination of cognition, affect, and behavioral tendencies that interact in hard-to-predict ways - as if to emphasize the process is not well understood or controlled. To understand how marketers and their organizations transition between strategic styles it is not enough to track their cognitive calculus (Axelrod 1976). We need to understand the roles of knowledge, emotion, and other behavior-defining forces (personality, commitment, self-image). We also need to understand the more basic elements of theories-in-use that are disconfirmed and updated in the transition process.

Finally, we are made aware of our need to understand why theories-in-use are primarily disconfirmed by evaluating the outcome of our own behavior instead of from knowledge gained vicariously and how to replicate enactment processes in controlled settings. Experience is a great teacher, but it can also be very costly to the organization and society at large. In the case of trust departments, our story had a happy ending since the department changed styles successfully and is today a profitable business. The same cannot be said for many other trust departments across the country that went out of business because they were too slow to learn and adapt to the new environment. The case suggests that if we can find ways of enhancing the experience level of marketing managers in controlled settings, it might be possible to accelerate the updating of theories-in-use while reducing the cost of experimentation. This requires

cognitive and emotional experiences, however, beyond the reach of even the best role playing and case analysis exercises.

This discussion is limited by its focus on one organization and one industry, and by its retrospective interpretation of the historical record. It provides only anecdotal support for the enactment model as a mechanism for updating theories-in-use and its generalizability is questionable. It is compelling, nevertheless, because the detail at which the department's behaviors are observed make other explanations of the transition process somewhat less palatable. At a minimum, it motivates us to study the transition process more rigorously. To test the applicability of the enactment process more rigorously it is necessary to use an experimental approach in which environments are changed and the transition process is recorded. Concurrent verbal protocols are one possible methodology suitable to assess how marketing managers change their strategic style.

To test the applicability of the process to other industries it is necessary to select one or more businesses that are currently experiencing changes in their environments, make an assessment of their current theories-in-use, and then track their transition process. The Pentagon and defense industry might be a fruitful area to explore in the wake of the collapse of communism in Eastern Europe and the subsequent demilitarization of Western nations. The active rhetoric by Pentagon officials and defense industry personnel on the need for military readiness against what are now "unexpected" threats suggests, however, that theories-in-use are not changing very quickly.

Conclusion

This paper suggests that beyond recognizing different strategic styles and their characteristics, we need to understand the process by which businesses transition between strategic styles in response to environmental changes. It illustrates that

changing strategic styles and resulting marketing strategies is not attainable by simply demanding change, and that there might be factors other than poor managerial training to explain why businesses struggle with transitions. The paper suggest strategic marketing style is a function of theories-in-use that are deeply ingrained in the minds of marketing managers, and they change only as experience disconfirms old theories in favor of new ones. The process of change is iterative and to some degree unpredictable.

We benefit from considering the process of transition as well as the characteristics of strategic styles in two ways. First, it forces us to consider a set of variables that has not received as much attention in marketing as environmental characteristics and strategic planning models but might be just as important. The nature of retentions and their more basic elements is as promising an area of inquiry in marketing as it has been in strategic management. The role of experience in determining enactment, and in particular the interaction of cognition, emotion, and behavioral tendencies, is another promising area. We have known intuitively for some time that marketers' actions often involve more than cognition, and the time might have arrived for more rigorous research in this area.

Second, the field will benefit by encompassing the processes within the individual manager as well as the organization into more comprehensive models of strategic thinking. We know much about the characteristics and behaviors of markets and businesses within markets, but the predictive ability of our theories is sometimes hampered by the actions of individual managers. Incorporating the characteristics and behaviors of individuals into more comprehensive models of strategic marketing is likely to improve their predictive ability.

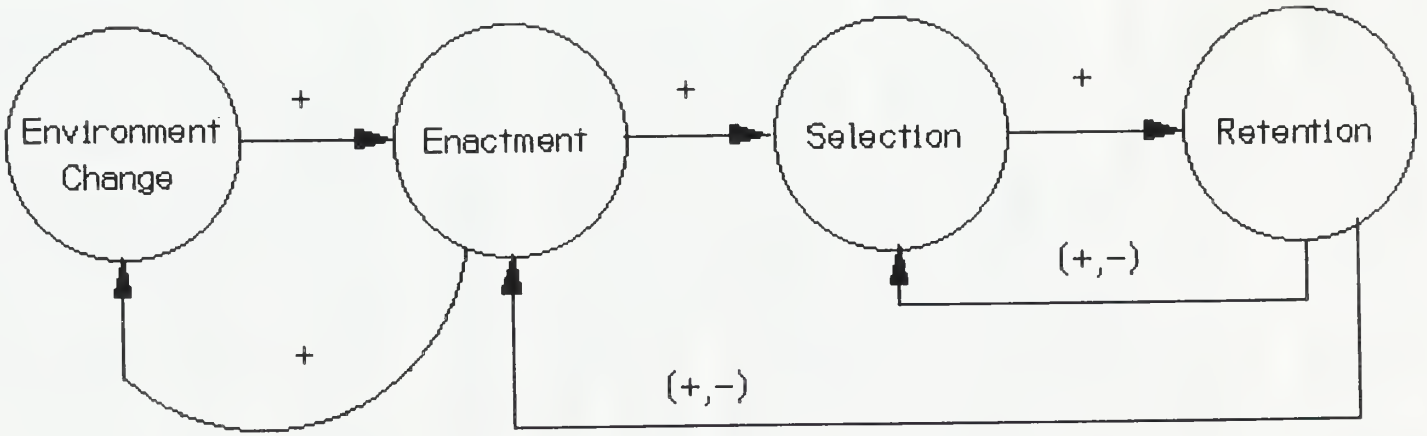
TABLE 1

ENVIRONMENTAL CHANGES AND IMPLICATIONS

Time	Environmental Change	Managerial Implications
1980	Depository Institutions Deregulation Act	Spectrum of Competitors Expanded
	Interest Rate and Maturity Constraints Reduced	Pressure on Profits as Margins Narrow
	Savings and Loan and Credit Union Services Expanded	Pressure on Bank Services and Revenue
	Restrictions on Financial Services by Bank and Trust Providers Reduced	Spectrum of Services Trust Departments Can Offer is Expanded
1981	Federal Reserve Tightens Monetary Policy - Interest Rates go to 20%.	Bank Credit Policies Become Tighter - Lending Under Pressure
	State Regulatory Agencies Reduce Restrictions on: - Insurance Providers - Banks and S&L - Geographic Coverage	Trust Investments Less Attractive than Regular Savings Products Geographic Expansion Opportunities
	Professional Associations Reduce Restrictions on: - Attorneys Marketing - CPA's Marketing	Attorneys, CPA's, and Insurance Brokers Threaten Estate Planning and Administrative. Advantage
1982	Gairn-St. Germain Act	Government Re-regulation of Industry Made Unlikely
	Interest Rate and Maturity Constraints Eliminated	Opportunities and Threats of Price Error Increased
	Consumer Credit Allowed by Non-Bank Providers	Subsidy Stream from Bank Threatened
	Array of Financial Mgmt. Products from Trust Departments Expanded	Opportunities for Offering Sophisticated Financial Management Products

FIGURE 1

Sense Making Through Enactment



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